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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001649

SIPDIS

SIPDIS

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN
STATE FOR D, E, P, AND WHA
TREASURY FOR DDOUGLASS
STATE PASS AID FOR LAC/CAM
NSC FOR DAN FISK

E.O. 12958: DECL: 09/05/2016

TAGS: [ENRG](#) [EPET](#) [HO](#) [PGOV](#) [PINR](#) [PREL](#)

SUBJECT: HONDURAS: CONGRESS REVIEWS FUEL BID TERMS; DIPPSA
SALE CONTINUES

REF: TEGUCIGALPA 1559 AND PREVIOUS

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) Summary: The Terms of Reference (TORs) for the national fuel bid was sent to the GOH Congress for approval August 30, but were returned to the Presidency with only a weak endorsement. The GOH now has 15 days to send out the bid to prospective companies. Meanwhile, Honduran fuel company DIPPSA remains the subject of several conflicting purchase rumors, but more concrete details are beginning to emerge. As the bid process comes down to the final month, who wins and who loses may soon be known. End Summary.

TORs: A Hot Potato Back to The President

12. (C) Revised Terms of Reference to initiate a bid for all of Honduras, refined fuel requirements was sent to the GOH Congress August 30, in a late night attempt to garner needed support for the controversial process. The TORs were accompanied by an executive decree that stated, among other considerations, that a 1983 Congressional decree that essentially nationalized fuel imports be resurrected. The decree cited a Constitutional article (Article 332), which provides that the state can exercise control over certain basic industries for reasons of &public order or social interest.⁸ (Comment: Post is researching the decree, but it is questionable if the current environment is similar to the situation that essentially required a state of emergency in 1983. End Comment).

13. (C) The TORs and the decree were delivered to the GOH congress at 5pm August 30, and it soon became clear that President of Congress Roberto Micheletti intended to pass a Congressional decree supporting the measure that night. Post began receiving calls by concerned opposition Nationalist party members at around 7pm, requesting EmbOffs call key Liberal Party congressmen to help stall the measure. EconOff eventually contacted Micheletti, but only to state that Post

had not received a copy of the TORs and could not at this time make a definitive judgment if they complied with CAFTA. Micheletti took that under consideration, and Congress eventually passed a weak decree that authorized the Presidency to move forward with the bid solicitation as long as it conforms with the Constitution and other country laws.⁸ (Comment: Various Congressmen felt that the Presidency was looking for a blanket endorsement that could set Congress up as a scapegoat if the bid process failed. Congress returned the favor by tossing it right back without recognizing the bid's legitimacy. Consequently, should an eventual bid winner be selected, the new contract will be sent to Congress for approval and a final determination on the bid's legitimacy will take place. End Comment).

¶4. (C) EconOff also received a call August 31 from former Nationalist Vice Presidential candidate Mario Canahauti, who said he was very concerned about the fuel bid, its impact on U.S. relations, and the general competency of the administration of President Jose Manuel &Me18 Zelaya. Canahauti was convinced that the bid process would fail, and indicated that it was time for Post to begin working more closely with elements of the administration (like Vice President Elvin Santos) that still appeared to be &rational8. EconOff asked that he make any further comments directly with the Ambassador, who Canahauti wanted to meet with immediately. In a September 1 meeting with EconOff, Vice President Santos described Canahauti as a personal friend but &unbalanced,⁸ and indicated that President Zelaya no longer took calls from him. Santos went on to indicate that he was concerned about the situation but wanted to keep his distance (and future political career) away from the fuel issue. He indicated that President Zelaya

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has been in consistent contact with former president Carlos Flores and Honduran businessman and presidential confidant Arturo Corrales, and still appeared to be negotiating with Venezuelan state fuel company PDVSA.

DIPPSA: The Deal That Just Keeps Going

¶5. (C) Honduran fuel retailer DIPPSA remains a prized piece in the fuel bid puzzle. With over 800 thousand barrels of capacity, the company could conceivably have enough storage to supply the country with a single type of refined fuel, for example premium and regular gasoline. The company also has strategically located terminal and storage facilities on both coasts, allowing for off-loading of fuel and storage on the Caribbean side, and more storage and nearby access to Nicaragua and El Salvador on the Pacific side (Note: Exxon owns 50 percent of DIPSSA's southern facilities and nominally has first right of refusal in the event of a purchase. End Note). DIPPSA president Henry Arevalo took on significant debt to buy the outstanding shares of the company earlier this year, and is eager to find a partner to purchase a stake or buy him out entirely. (Comment: The current gas price freeze, which began April 9, has been particularly brutal on the heavily indebted Arevalo. Some have speculated that President Zelaya has withheld reimbursing the fuel importers during the price freeze to specifically force Arevalo to sell the company. In a August 30 meeting with EconOff Arevalo admitted to finally receiving a payment that may have covered a significant portion of what he was owed, estimated at USD 5 to 6 million. This may indicate Zelaya is rewarding him for selling the company to the right bidder. End Comment).

¶6. (C) Arevalo indicated to EconOff that he had met with Holland-based oil trader Trafigura on August 29 regarding a potential sale of 50 percent of the company. Per Arevalo, the 50 percent sale would bring needed capital and allow DIPPSA to diversify its business base out of Honduras and give the company flexibility to respond to situations like

the gas price freeze. Trafigura has a small presence in Honduras through their PUMA brand retail gas station network. EconOff also met August 30 with the PUMA Honduran representative who, while not familiar with the Arevalo discussions, indicated that he doubted Trafigura would get involved in Honduras at this time, given the doubts regarding the fuel bid. (Comment: The Trafigura-DIPPSA combination would make a good strategic fit, but given the current environment of potential expropriation it is difficult to believe that Trafigura would take on the risk. End Comment).

¶ 7. (C) Arevalo also continued to strongly deny any serious discussions with Adrian Reca, the French and/or Argentine businessman that is looking to buy DIPPSA through his company TransPetrol (or another recently formed company called Petroleos de Centroamerica). However, a business partner of Reca indicated that TransPetrol has already signed a deal with Arevalo and is set for an announcement on the purchase Monday Sept 4 (Note: As of Sept 5 there has been no reported announcement. End Note). Reca has made clear that he intends to source his fuel from PDVSA, and per the source is currently in Caracas discussing terms. Reca was also recently in the Dominican Republic, where he apparently made a bid for fuel giant Shell's assets. (Comment: Per EconChief in the Dominican Republic, Shell has been looking for a buyer for some or all of their operations, but no definitive buyer has emerged. End Comment). Rumors of involvement by former President Rafael Callejas in the Reca venture were confirmed by Santos in the September 1 meeting.

¶ 8. (C) Arevalo also stated that he had continued to receive offers directly from PDVSA, but that he has refused serious talks with the Venezuelans based on his belief that the

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company would &damage Honduras and hurt relations with the U.S.⁸ A fuel industry representative confirmed that Arevalo was seen meeting with PDVSA representatives as late as two weeks ago. In addition to direct negotiations with PDVSA and indirectly through Reca's companies, Arevalo also has been in early discussions with LukyPetrol, a Venezuelan company that per sources in Embassy Caracas is in &pre-operation,⁸ and is identified as a &shell company with links to the government.⁸ In an August 28 meeting with EconOff, Honduran Attorney General Leonidas Rosa Bautista specifically identified LukyPetrol as a company that had been delivering illegal fuel shipments throughout the Honduran Bay Islands, particularly the island of Guanaja. Bautista had sourced this information from a gathering of Attorney General's in Panama City the week before. (Comment: DEA sources confirm that illegal shipments of low priced diesel have recently been identified around the islands, selling the fuel for as little as USD 1.65 per gallon. End Comment).

¶ 9. (C) A final suitor for DIPPSA, Caribbean PetroChemical (CPC) of Miami, has apparently decided to give up its pursuit of the Honduran fuel company. EconChief was contacted in July by the CEO of CPC, who indicated that he had already signed a contract with Arevalo valued at USD 65 million. Among his demands to close the deal, however, was an official letter from the GOH Congress indicating that the fuel bid was not going to go through. By August CPC had stopped returning EconOff's phone calls. Like LukyPetrol, CPC had apparently just started operations in June. (Comment: Post assumed that CPC was a front company. A source in the Reca camp indicated that Minister of the Presidency Yani Rosenthal and his father, Liberal Party godfather Jaime Rosenthal, were behind the venture. Vice President Santos also mentioned the Rosenthal connection. Interestingly, about the time CPC dropped off the radar screen, Yani Rosenthal came out with an announcement stating that all imports would only come from the GOH under the new scheme. While in principle that rings true, the announcement might have been a clear signal that, while his team might have lost out in the purchase of DIPPSA, he still had control over the process. End Comment).

¶10. (C) COMMENT. With their weak support the Congress has opened a window that will allow ample legal challenges to the fuel bid. Honduran business association COHEP, that initially identified 15 legal discrepancies with the fuel bid, is gearing up for another thorough review. Post has forwarded the TORs to USTR for review, and will also send the 1983 Decree and Constitutional amendment when available. On DIPPSSA, it would appear Arevalo's version of events with Trafigura makes the most sense, but that deal is far from a sure thing. The Reca deal incorporates more information that Post has heard all along: involvement of PDVSA, intervention of ex-President Callejas, close association of the principals with President Zelaya. Post will remain vigilant as the bid enters its final month. END COMMENT.

FORD